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Chile

DAIRY AND PRODUCTS ANNUAL

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Report Highlights:

Chile's dairy production this year is expected to fall after many years of continuous expansion mainly because prices paid to farmers have fallen significantly during the last year and an increasing number of producers are either going out of business or reducing their production herds.

Executive Summary:

Chile's milk production is expected to fall in 2009 (Jan-Dec) after many years of continuous expansion. A significant reduction of the prices paid to producers together with a drought in most producing areas, are the main factors for the fall in output. Domestic milk prices are an important factor that affects total milk output. Additionally weather is an important factor for pasture production, Chile's basic feed input. The outlook for the next few years' milk production will depend on international dairy prices, government policies, and continued improvements in technology and animal genetics.

Commodities:

Select

Production:

Production General

Chile's total milk output rose a modest 4.1 percent from 2.45 billion in 2007 to 2.55 billion liters in 2008, mainly due to an increase of number of cows, productivity of the herd and an increase use of milk substitutes for raising calves, thus increasing deliveries to the processing plants. Additionally, a climatic condition in the primary dairy producing regions of the country was another factor that affected total production positively. Although production has been expanding for the last 5 years, for 2009 a fall in output of approximately 12 percent is expected. A significant fall of international prices of milk which reduced domestic milk prices paid to producers is the main reason for the expected fall in production together with a sever drought that affected the main milk production areas, which reduced availability of feed, also contributed to the fall in output. Over 80 percent of the milk production herd is fed in grazing fields, supplemental feed is used mainly by large producers and during the winter months. Low international prices of milk, cheese and powdered milk imports increased significantly and domestic milk prices paid to producers fell over 25 percent in real terms from August 2008 to the same month in 2009. As a result a significant number of producers decided to either reduce or close their milking operations. Industry sources indicated that the number of milking cows send to the slaughter houses have increased 50 percent during the first 8 months of 2009.

TABLE - Dairy Production

	Total Rec'd by Industry	Fluid Milk	Dry Milk	Butter	Cheese	Farmers Cheese	Yogurt	Conden. Milk
Year	--Million Liters--		--------------------------Thousand Kilograms--------------					
1980	592	127	32,566	4,016	13,902	3,868	15,054	7,835
1990	890	138	45,126	6,448	24,513	5,422	0,939	8,325
1995	1,358	225	61,418	6,651	40,816	5,873	67,663	8,674
1997	1,497	271	65,726	9,582	43,712	7,106	79,423	10,219
1998	1,530	269	70,877	11,159	46,528	7,631	82,243	13,244
1999	1,470	279	60,597	11,007	44,777	7,034	100,203	15,742
2000	1,447	275	59,669	9,855	44,718	7,167	106,624	24,400
2001	1,637	291	71,464	11,836	50,417	7,150	95,249	25,418
2002	1,605	296	67,710	11,551	53,075	7,480	127,057	24,190
2003	1,563	293	61,867	10,849	53,037	7,555	139,344	30,558

2004	1,676	289	63,633	13,084	58,849	8,296	159,828	38,698
2005	1,723	298	62,792	14,655	67,176	10,507	189,436	39,645
2006	1,818	319	69,491	17,157	62,072	9,088	157,980	43,426
2007	1,871	330	74,204	18,229	61,745	8,579	162,505	45,287
2008	1,972	323	102,955	16,765	57,369	7,960	178,215	41,501
2008*	1,210	205	62,069	10,960	36,098	5,223	117,279	29,040
2009**	1,062	223	38,269	11,441	35,866	5,231	126,243	19,058
Note: Year 2008* January through August								
Year 2009** January through August								
Source: Ministry of Agriculture								

During the first semester of 2009, milk producers requested the GOC to impose a surcharge of 31.5 percent on imports of Gouda cheese and whole powdered milk, as imports of these milk products increased significantly during the first 8 months of 2009 when compared to the same period of 2008. Gouda cheese imports increased 72 percent and powdered milk expanded 344 percent from 2008 to 2009, coming mainly from Uruguay and Argentina and at a lower than at that time prevailing international prices. Finally, during the first week of October the GOC announced the application of a safeguard of 15 percent on imports of whole powdered milk and Gouda cheese. The temporary safeguard will extend until early December, when the Commission of Distortion must decide on the final figure to be applied. The safeguard could at that date be extended for a year or ended if the international price of milk increases again.

TABLE - Whole milk powder

Import volumes by country of origin (kg)

Country of origin	Year 2008	Jan-Aug 2008	Jan-Aug 2009
Argentina	218.871	114.000	166.096
Brazil	100.000	100.000	0
France	23.100	23.100	12.600
New Zealand	48.000	48.000	0
Uruguay	25.000	25.000	1.200.000
Other	1.229	1.229	2.896
TOTAL	**416.200**	**311.329**	**1.381.592**

Import values by country of origin (US Dollars, CIF)

País de origin	Year 2008	Jan-Aug 2008	Jan-Aug 2009
Argentina	998.826	513.036	398.202
Brazil	487.801	487.801	0
France	124.718	124.718	36.411
New Zealand	244.154	244.154	0
Uruguay	76.446	76.446	2.542.699

Other	12.146	12.146	25.494
TOTAL	**1.944.091**	**1.458.302**	**3.002.805**

Source: ODEPA

TABLE - Gouda Cheese

Import volumes by country of origin (kg)

Country of origin	Year 2008	Jan-Aug 2008	Jan-Aug 2009
Germany	20.665	14.975	0
Argentina	1.974.585	1.544.630	2.495.306
Chile	24.386	24.386	0
Uruguay	496.400	355.400	850.000
Others	0	0	162
TOTAL	**2.516.037**	**1.939.391**	**3.345.468**

Import values by country of origin (US Dollars, CIF)

Country of origin	Year 2008	Jan-Aug 2008	Jan-Aug 2009
Germany	108.932	85.848	0
Argentina	8.723.123	6.959.373	6.883.128
Chile	118.887	118.887	0
Uruguay	2.221.723	1.684.324	2.442.024
Others	0	0	1.785
TOTAL	**11.172.665**	**8.848.431**	**9.326.937**

Source: ODEPA

Chile currently has an estimated 16,000 dairy farmers with approximately 650,000 cows in production, of which 80 percent are considered small producers and the whole dairy industry employs directly and indirectly an estimated 35,000 persons.

Trade:

Latin American countries are the main destination for Chile's dairy exports, headed by Mexico with a 42 percent and Venezuela with a 35 percent of total dairy exports. Close to 40 percents of these exports correspond to whole and non fat dry milk.

Argentina was again the main supplier of dairy products during 2008. The US has become Chile's second supplier of dairy products.

The dairy industry's export exceeds imports in volume and value. In CY2008 the trade balance expressed in fluid milk equivalent fell when compared to the previous year, mainly as a result of the fall of international prices of dairy products which reduced domestic production and availability, increasing imports of dairy products.

TABLE - Trade balance, January - August 2009

	Volume (M.T. Thous.or Ltrs)				Expressed in fluid milk equivalent (Thous.Ltrs)			
Item	2006	2007	2008	2009	2006	2007	2008	2009
IMPORTS								
UHT Products	9.417	1.345	205	0	9.417	1.345	205	0

NFDM	5.588	2.298	5.739	3.749	64.206	26.404	65.941	43.076
Whole dry milk	5.542	299	311	1.382	46.553	2.512	2.612	11.609
Cream		24	0	1	0	24	0	1
Evaporated milk	1.468	1.319	700	945	7.340	6.595	3.500	4.725
Condensed milk	648	192	465	327	1.750	518	1.256	883
Yogurt	594	1.035	4.522	2.077	594	1.035	4.522	2.077
Butter	1.187	440	165	696	1.187	440	165	696
Cheese	7.120	4.840	5.129	6.441	71.200	48.400	51.290	64.410
Caramel milk & others	2.268	2.367	2.215	2.018	4.990	5.207	4.873	4.440
Dairy drinks	784	0	3	1	784	0	3	1
Total					**208.020**	**92.480**	**134.367**	**131.917**
EXPORTS								
UHT Products	1.486	772	366	1.434	1.486	772	366	1.434
NFDM	187	334	1.507	62	2.149	3.838	17.315	712
Whole dry milk	3.129	7.754	9.690	10.216	26.284	65.134	81.396	85.814
Cream	153	138	143	193	153	138	143	193
Evaporated milk	7	1	2	17	35	5	10	85
Condensed milk	24.952	24.938	24.361	15.601	67.370	67.333	65.775	42.123
Yogurt	4	20	21	25	4	20	21	25
Butter	102	1.235	1.035	559	102	1.235	1.035	559
Cheese	6.937	11.308	8.924	5.904	69.370	113.080	89.240	59.040
Caramel milk & others	1.995	1.881	2.491	2.549	4.389	4.138	5.480	5.608
Dairy drinks	97	61	60	97	97	61	60	97
Total					**171.439**	**255.753**	**260.841**	**195.690**
Balance					**-36.581**	**163.273**	**126.474**	**63.773**
Source: ODEPA.								

Policy:

Although Chile bound its dairy product import duties (HS 04.02, 04.05, 04.06) at 31.5 percent in the Uruguay Round, a flat import tariff of 6 percent is applied on nearly all imported dairy products. Additionally, a value-added tax of 19 percent is charged at the consumer level on all goods, domestic or imported. Chile has reduced import duties only for Colombia and the United States for whole and non-fat dry milk as a result of the Free Trade Agreements with these countries. Non-fat dry milk enters duty free in 2007 and whole dry milk will be tariff free in 2011. Colombia will have duty fee access for both, whole and non-fat dry milk by 2012. For all other countries that have signed agreements with Chile, dairy products are excluded from the tariff reduction schedule.

As a result of Chile’s trade agreements, the dairy industry expects to keep increasing its export market share. The US – Chile FTA provides for a 3,500 metric ton duty free quota for Chilean dairy products. This volume increases 10 percent each year until Chile gains duty free access in 2016. The agreement with the EU offers a duty free quota of 1,500 Tons, with a yearly increment of 5 percent. The agreement reached with South Korea gives only a 1,000 Metric Ton duty free quota for whey powder, but there is an agreed upon reduction in the high duties for dairy products like yogurt and cheese in 10 years. Duties applied to these products are 40 and 38 percent respectively. No preferences were agreed for dairy products in the Chile-Japan trade agreement.

In an effort to increase domestic consumption of milk and milk products the GOC, the industry and producers continues with a promotional campaign, which is evenly financed by all. These three players have agreed to form and finance an association (Promolac) that manages the contributed funds in promotional campaigns, mainly through TV and printed media. In 2009 contributions reached only 600 million Chilean pesos (US$1.1 Million) because the GOC did not contribute its share for a second year in a row.

Dairy: Chile's tariff reduction schedule in trade agreements (1)

Country of origin	2004	2005	2006	2007	2008	2009	2010	2011	2012
Whole milk powder 0402.2118									
Bolivia	Goods released from duties								
Canada	Current general tariff of 6%. Goods excluded from relief								
Colombia	6%	6%	6%	5%	4%	3%	2%	1%	0
Costa Rica	Current general tariff of 6%. Goods excluded from relief								
Ecuador	Current general tariff of 6%. Goods excluded from relief								
El Salvador	Current general tariff of 6%. Goods excluded from relief								
EE. UU.	5.25%	4.5%	3.75%	3.0%	2.25%	1.5%	0.75%	0	0
Mexico	Current general tariff of 6%. Goods excluded from relief								
Mercosur	Goods released from duties								
Peru	Current general tariff of 6%. Goods excluded from relief								
European Union	6%	6%	The third year is revised in accordance with EU						
Venezuela	Current general tariff of 6%. Goods excluded from relief								
NDM 0402.1000									
Bolivia	Current general tariff of 6%. Goods excluded from relief								
Canada	Current general tariff of 6%. Goods excluded from relief								
Colombia	6%	6%	6%	5%	4%	3%	2%	1%	0
Costa Rica	Current general tariff of 6%. Goods excluded from relief								
Ecuador	Current general tariff of 6%. Goods excluded from relief								
El Salvador	Current general tariff of 6%. Goods excluded from relief								
EE. UU.	5%	3%	2%	0	0	0	0	0	0
Mexico	Current general tariff of 6%. Goods excluded from relief								
Mercosur	Goods released from duties								
Peru	Current general tariff of 6%. Goods excluded from relief								
European Union	6%	6%	The third year is revised in accordance with EU						
Venezuela	Current general tariff of 6%. Goods excluded from relief								

Description and Coding System, 8-digit level. This code can be different in each country.

Dairy: tariff reduction schedule of the partner countries in trade agreements(1)

Country of origin	2004	2005	2006	2007	2008	2009	2010	2011	2012
Whole milk powder 0402.2118									

Bolivia	Goods released from duties								
Canada	Current general tariff of 264.9%. Goods excluded from relief								
Colombia	16.6%	16.6%	16.6%	16.6%	13.4%	10.0%	6.6%	3.4%	0
Costa Rica	Current general tariff of 72%. Goods excluded from relief								
Ecuador	Current general tariff of 20%. Goods excluded from relief								
El Salvador	Current general tariff of 40%. Goods excluded from relief								
EE. UU. [2] [C]	1.092 U.S. $ / k	1.092 U.S. $ / k	1.092 U.S. $ / k	1.092 U.S. $ / k	1.092 U.S. $ / k	1.092 U.S. $ / k	1.092 U.S. $ / k	0.874 U.S. $ / k	0.656 U.S. $ / k
Mexico	Current general tariff of 128%. Goods excluded from relief								
Mercosur	Goods released from duties								
Peru	20%	20%	20%	20%	20%	16.6%	13.4%	10%	6.6%
European Union	130.4 € / 100k	130.4 € / 100k	The third year is revised in accordance with EU						
Venezuela	Current general tariff of 20%. Goods excluded from relief								
NDM 0402.1000									
Bolivia	Current general tariff of 10%. Goods excluded from relief								
Canada	Current general tariff of 219.4%. Goods excluded from relief								
Colombia	16.6%	16.6%	16.6%	16.6%	13.3%	10.0%	6.6%	3.4%	0
Costa Rica	Current general tariff of 72%. Goods excluded from relief								
Ecuador	Current general tariff of 20%. Goods excluded from relief								
El Salvador	Current general tariff of 20%. Goods excluded from relief								
EE. UU. [C]	86.5 ¢ / k	86.5 ¢ / k	86.5 ¢ / k	86.5 ¢ / k	86.5 ¢ / k	86.5 ¢ / k	86.5 ¢ / k	69.2 ¢ / k	51.9 ¢ / k
Mexico	Current general tariff of 90%. Goods excluded from relief								
Mercosur	Goods released from duties								
Peru	20%	20%	20%	20%	20%	16.6%	13.4%	10%	6.6%
European Union	125.4 € / 100k	125.4 € / 100k	The third year is revised in accordance with EU						
Venezuela	Current general tariff of 20%. Goods excluded from relief								

Notes:

[1] Based on the Harmonized Commodity Description and Coding System, 8-digit level. This code can be different in each country.

[2] Whole powdered milk with fat content below 35%. For products with more than 35% fat is applied tariff of U.S. $ 1,556 per kilo.

[C] It applies duty-free quota to 11 year life of the agreement. For amounts exceeding the duty-free quota entitlements would be maintained over years 1 to 7 and will remove tariffs from year 8 in five equal steps and made those goods duty free to count from January 1, 2012

U.S. import quotas Tariff-free dairy products (metric tons)

Year	Milk powder	Condensed milk	Butter	Cheese
1	828	489	300	1,432
2	866	523	321	1,532
3	948	560	343	1,639
4	1,014	599	368	1,754
5	1,085	641	393	1,877
6	1,161	686	421	2,008
7	1,243	734	450	2,149

8	1,330	785	482	2,229
9	1,423	840	515	2,460
10	1,522	899	552	2,633
11	1,629	962	590	2,817
12	Unlimited			
Quotas allocated in order of arrival.				

Commodities:

Dairy, Dry Whole Milk Powder

Production: Close to 75 percent of Chile's production of dry milk is whole milk powder. Production of whole dry milk increased again in CY2008 when compared to both the previous year and our last years estimates. An increase in production capacity, good prices and a strong export demand are the main reasons for this expansion. The industry has been expanding their production capacity mainly with investments in new drying facility. For 2009 production of whole dry milk is expected to fall as a result of a predicted reduction of milk production. Lower dry milk prices due to the economic crisis that is affecting most countries reduced domestic prices of milk paid to farmers. Total output of milk was also affected by last spring and summer drought (CY2008/2009) in most milk production regions. For 2010, the industry predicts a slight increase in production.

Consumption:

Dry milk is available for sale in all Chilean supermarkets and smaller grocery stores. Families that do not consume large quantities of milk or lack refrigerators to keep UHT fresh after opening prefer dry rather than fluid milk. Ultra high heat treated milk (UHT milk) is very common in Chile because you can store the containers for long time without refrigeration, but once opened the containers have to be kept in refrigerators. Government food programs also account for a significant proportion of dry milk consumption. Government tenders for dry milk may be filled by either domestic or imported product. During the winter months, the industry reconstitutes fluid milk from dry milk produced during the summer, in order to produce dairy products that have a constant demand throughout the year.

Trade:

Due to a larger domestic production of dry milk, imports of whole dry milk fell significantly in 2007. Small amounts, less than five hundred tons were imported in 2008. As a result of very low prices in 2009 imports of whole dry milk is expected to increase considerably from less than 400 MT to over 1.5 thousand MT.

Chile's milk processing industry expects to increase its export markets in the coming years as the they become more competitive and the price incentive increases. In the long-term, Chile's success in the dairy export market will depend upon its ability to compete with other countries. Chile's main export markets are in Latin America, particularly Venezuela, Cuba, Peru and Bolivia.

Production, Supply and Demand Data Statistics:

	2008			2009			2010		
	Market Year Begin: Jan 2008			Market Year Begin: Jan 2009			Market Year Begin: Jan 2010		
	USDA Official Data		Old Post Data	USDA Official Data		Old Post Data	USDA Official Data		Jan Data
Beginning Stocks	2	2	2	7	7	17			11
Production	70	70	80	75	75	58			62

Other Imports	0	0	0	0	0	1			1
Total Imports	0	0	0	0	0	1			1
Total Supply	72	72	82	82	82	76			74
Other Exports	14	14	15	20	20	15			15
Total Exports	14	14	15	20	20	15			15
Human Dom. Consumption	51	51	50	55	55	50			51
Other Use, Losses	0	0	0	0	0	0			0
Total Dom. Consumption	51	51	50	55	55	50			51
Total Use	65	65	65	75	75	65			66
Ending Stocks	7	7	17	7	7	11			8
Total Distribution	72	72	82	82	82	76			74
CY Imp. from U.S.	0	0	0	0	0				
CY. Exp. to U.S.	0	0	1	0	0				

Export Trade Matrix							
Country	Chile						
Commodity	Dairy, Dry Whole Milk Powder						
Time Period	Jan-Dec		Units:	M.T.			
Imports for:	2007		**2008**	**2008 (Jan-Aug)**		**2009 (Jan-Aug)**	
U.S.	481	U.S.	563	U.S.	562	U.S.	500
Others		Others		Others		Others	
Switzerland	3500	Venezuela	9975	Venezuela	7375	Venezuela	8768
Venezuela	1566	Pakistan	1600	Cuba	1100	Peru	465
Cuba	1400	Cuba	1350	Peru	399	Colombia	251
Guatemala	1198	Peru	715	Singapore	75	Mexico	150
Honduras	639	Bolivia	96	Bolivia	60	Senegal	25
El Salvador	536	Singapore	75	Guatemala	50	Guatemala	22
Peru	389	Guatemala	50	El Salvador	40	Bolivia	21
Mexico	175	El Salvador	40	China	25	Aruba	3
Bolivia	106	Mongolia	32	Aruba	3		
Nicaragua	50	China	25				
Total for Others	9559		13958		9127		9705
Others not Listed	10		4		0		0
Grand Total	10050		14525		9689		10205

Import Trade Matrix							
Country	Chile						
Commodity	Dairy, Dry Whole Milk Powder						
Time Period	Jan-Dec		Units:	M.T.			
Imports for:	2007		**2008**	**2008 (Jan-Aug)**		**2009 (Jan-Aug)**	
U.S.	0	U.S.	0	U.S.	0	U.S.	0
Others		Others		Others		Others	
Uruguay	199	Argentina	219	Argentina	114	Uruguay	1200
Brazil	125	Brazil	100	Brazil	100	Argentina	166
Argentina	81	N. Zealand	49	N. Zealand	49	France	13
New Zealand	33	Uruguay	25	Uruguay	25	N. Zealand	3

		France	23	France	23		
Total for Others	438		416		311		1382
Others not Listed	0		0		0		0
Grand Total	438		416		311		1382

Commodities:

Dairy, Milk, Nonfat Dry

Production: Chile's NFDM production increased slightly again in 2008, as milk output increased. Production in the coming years will depend on expected prices in international markets and changes in food industry consumption or specific strategies from individual industries.

Consumption:

Chile's food industry determines to a great degree the consumption level of NFDM in Chile. Leading products made from NFDM are chocolate, ice cream and yogurt. The consumption rate of these products is in line with Chile's economic growth. For 2005 and beyond, utilization is expected to continue to increase, but at a slower rate.

Trade:

The US has become again an important supplier of NFDM (non fat dry milk) for Chile. Competitive US prices for NFDM is the main reason for US milk imports, according to industry sources.

Production, Supply and Demand Data Statistics:

	2008			2009			2010		
	Market Year Begin: Jan 2008			Market Year Begin: Jan 2009			Market Year Begin: Jan 2010		
	USDA Official Data		Old Post Data	USDA Official Data		Old Post Data	USDA Official Data		Jan Data
Beginning Stocks	4	4	4	6	6	3			3
Production	20	20	18	20	20	14			16
Other Imports	7	7	7	4	4	7			7
Total Imports	7	7	7	4	4	7			7
Total Supply	31	31	29	30	30	24			26
Other Exports	2	2	5	2	2	0			2
Total Exports	2	2	5	2	2	0			2
Human Dom. Consumption	23	23	21	23	23	21			21
Other Use, Losses	0	0	0	0	0	0			0
Total Dom. Consumption	23	23	21	23	23	21			21
Total Use	25	25	26	25	25	21			23
Ending Stocks	6	6	3	5	5	3			3

Total Distribution	31	31	29	30	30	24			26
CY Imp. from U.S.	0	0	4	0	0				
CY. Exp. to U.S.	0	0	0	0	0				

Export Trade Matrix							
Country	Chile						
Commodity	Dairy, Milk, Nonfat Dry						
Time Period	Jan-Dec	Units:	M.T.				
Imports for:	2007		**2008**	**2008 (Jan-Aug)**		**2009 (Jan-Aug)**	
U.S.	0	U.S.	0	U.S.	0	U.S.	0
Others		Others		Others		Others	
Venezuela	150	Cuba	2900	Singapore	765	Venezuela	25
Mexico	100	Singapore	765	Mexico	290	Aruba	4
Peru	66	Mexico	340	Venezuela	200		
Panama	8	Brazil	200	Peru	175		
El Salvador	7	Venezuela	200	Brazil	50		
Bolivia	2	Peru	175	Taiwan	16		
		Guatemala	48	Aruba	4		
		Taiwan	41				
		Aruba	7				
Total for Others	333		4676		1500		29
Others not Listed	0		0		0		0
Grand Total	333		4676		1500		29

Import Trade Matrix							
Country	Chile						
Commodity	Dairy, Milk, Nonfat Dry						
Time Period	Jan-Dec	Units:	M.T.				
Imports for:	2007		**2008**	**2008 (Jan-Aug)**		**2009 (Jan-Aug)**	
U.S.	194	U.S.	3903	U.S.	3411	U.S.	374
Others		Others		Others		Others	
Netherlands	820	N. Zealand	2193	N. Zealand	1853	Argentina	2411
Uruguay	682	Argentina	822	Argentina	325	Uruguay	866
Germany	325	Canada	75	Canada	75		
New Zealand	251	Brazil	63	Brazil	62		
Brazil	50						
Argentina	25						
Canada	25						
Australia	25						
France	48						
Total for Others	2251		3153		2315		3277
Others not Listed	0		0		0		0
Grand Total	2445		7056		5726		3651